ANNUAL BUDGET OF

NQUTHU LOCAL MUNICIPALITY

"phambili ngentuthuko eNquthu"

"forward with development at Nquthu"

2013/14 TO 2015/16

MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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Part 1 – Annual Budget

1.1 Mayor's Report

This is my second budget I am presenting to the community of Nquthu after the 2011 local government elections. It is prepared amid global financial challenges that faces our country of which we as the rural part of the country we are not exempted. These challenges are weakening our sustainability and if we do not plan for our resources properly we may find ourselves in a danger of being poor as the municipality.

Our budget was informed by the following major documents.

1. 2012/2013 Medium-Term review by National Treasury
2. State of the Nation Address by the President of the country
3. Budget Speech by the Minister of Finance
4. Various circulars issued by the National Treasury
5. National Development Plan
6. Provincial Growth Development Plan
7. Census 2011 results

1.2 Council Resolutions

On the 27th of March 2013 the Mayor proposed the following resolution to be adopted by the Council with regards to the budget.

That

1. The Council of Nquthu Local Municipality, acting in terms of Section 24 of the Municipal Finance Management Act, (Act 56 of 2003) approves and adopts:

1.1 The annual budget of the Municipality for the Financial Year 2013/2014 and the multi-year and single-year capital appropriations as set out in the following tables:

1.1.1 Budgeted Financial Performance

1.1.2 (revenue and expenditure by standard classification)

1.1.3 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3

1.1.4 Budgeted Financial Performance (revenue by source and expenditure by type) as contained in table A4 and
1.1.5 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in table A5.
1.2 The financial position, cash flow budget, cash-backed reserve/accumulated surplus, asset management and basic service delivery targets are approved as set out in the following tables.
1.2.1 Budgeted Financial Position as contained in Table A6.
1.2.2 Budgeted Cash Flows as contained in table A7
1.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in table A8.
1.2.4 Asset Management as contained in Table A9 and
1.2.5 Basic service delivery measurement as contained in Table A10.
2. The Council of Nquthu Local Municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from July 2013.
2.1 the tariffs for property rates – as set out in Annexure A,
2.2 the tariffs for electricity – as set out in Annexure B
2.3 The tariffs for solid waste services – as set out in Annexure C
3. The Council of Nquthu Local municipality, acting in terms of Section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from July 2013 the tariffs for other services, as set out in Annexure D.
4. To give proper effect to the Municipality's annual budget, the Council of Nquthu Local Municipality approves:
4.1 That cash backing is implemented through the utilization of a portion of the Revenue generated from property rates to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.
4.2 The following financial management policies:
   A. Budget policy
   B. Supply Chain Management policy
   C. Property Rates policy
   D. Borrowing policy
   E. Banking/Cash management and investment policy
   F. Debt Collection and credit control policy
   G. Virement policy
   H. Fixed Assets Policy
   I. Funding and reserve policy
   J. Indigent policy
   K. Financial Planning policy
   L. Property rates by-law
   M. Tariffs policy
5. That the Municipal Manager be authorized to sign the quality certificate.

1.3 Executive Summary

The dawn of the MFMA which was introduced to modernise and encourage sound financial management as well as the introduction of financial reforms for the local government has enabled the municipality to towards being sustainable and that we are financially viable.

Table 1 Consolidated Overview of the 2013/14 MTREF

R (Thousands)	2012/2013 Final Adjusted budget	Budget year 2013/2014	Budget year + 1 2014/2015	Budget year + 2 2015/2016
Total Operating Revenue				
Total Operating Expenditure				
Surplus/(Deficit) for the year				
Total Capital Expenditure				

1.4 Operating Revenue Framework

For Nquthu Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 90 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the municipality.

The following table is a summary of the 2013/14 MTREF (classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source

Table 3 Percentage growth in revenue by main revenue source

Table 4 Operating Transfers and Grant Receipts

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0,25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R85 000 reduction on the market value of a property will be granted in terms of the municipality's own Property Rates Policy;
- 50 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;
- For pensioners, physically and mentally disabled persons, a maximum/total rebate of 50 per cent (calculated on a sliding scale) will be granted to owners of rate-able property if the total gross income of the applicant and/or his/her spouse, if any, does not to exceed the amount equal to twice the annual state pension as approved by the National Government for a financial year. In this regard the following stipulations are relevant:
    - The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;
    - The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension;
    - The applicant's account must be paid in full, or if not, an arrangement to pay the debt should be in place; and
    - The property must be categorized as residential.

- The Municipality may award a 100 per cent grant-in-aid on the assessment rates of rate-able properties of certain classes such as registered welfare organizations, institutions or organizations performing charitable work, sports grounds used for purposes of amateur

sport. The owner of such a property must apply to the Accounting Officer in the prescribed format for such a grant.

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2013/14 financial year based on a 6 per cent increase from 1 July 2013 is contained below:

Table 5 Comparison of proposed rates to levied for the 2013/14 financial year

Category	Current Tariff (1 July 2012)	Proposed tariff (from 1 July 2013)
	Cents	Cents
Residential properties	R0.015	
State owned properties	R0.020	
Business & Commercial	R0.020	
Agricultural	R0.0250	
Vacant land	R0.050	R0.050
Municipal rateable	N/A	N/A
Industrial	R0.020	
Public Service Infrastructure	R0.0250	
Public benefit organisation properties		

Table 6 Comparison of proposed rebates for the 2013/14 financial year

Category	Current Tariff (1 July 2012)	Proposed tariff (from 1 July 2013)
	R	R
Primary rebates – residential	15 000	15 000
Additional Rebates – residential	85 000	85 000
PSI	25%	25%
Pensioners	25%	50%
Child headed families	25%	50%

1.4.2 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 7,3 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2013.

Considering the Eskom increases, the consumer tariff had to be increased by an average of 7 per cent to offset the additional bulk purchase cost from 1 July 2013. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge. In addition those residential customers that are not registered as indigent, but that consume less than 100 kWh per 30-day period will receive 50 kWh free of charge (still need confirmation).

NERSA has approved the application of the municipal tariffs based on the above, even when our tariffs are in line with the neighbouring municipality and within NERSA guidelines we are still running this service at a huge loss and the municipality needs to further investigate what can be done to bring losses within acceptable norms because Treasury has raised concerns about this as well.

The following table shows the impact of the proposed increases in electricity tariffs on the electricity charges for domestic customers:

Table 6 Comparison between current electricity charges and increases (Domestic)

1.4.3 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration as there has been a relocation of the waste transfer station. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

A 6 per cent increase in the waste removal tariff is proposed from 1 July 2013. Higher increases will not be viable in 2013/14 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 6 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2013:

Table 7 Comparison between current waste removal fees and increases

1.4.4 Overall impact of tariff increases on households

The following table shows the overall expected impact of the tariff increases on a large and small household, as well as an indigent household receiving free basic services.

Note that in all instances the overall impact of the tariff increases on household's bills has been kept to between 6 and 7 per cent, with the increase for indigent households closer to 7 per cent.

Table 8 MBRR Table SA14 – Household bills

1.5 Operating Expenditure Framework

The municipality's expenditure framework for the 2013/14 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan which must be developed by the Technical Service department;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plans no budget*. If there is no business plan no funding allocation can be made.

The following table is a high level summary of the 2013/14 budget and MTREF (classified per main type of operating expenditure):

Table 9 Summary of operating expenditure by standard classification item

The budgeted allocation for employee related costs for the 2013/14 financial year totals R 32 million, which equals 27.7 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 7 per cent for the 2013/14 financial year. An annual increase of 7.5 per cent has been included in the two outer years of the MTREF. The municipality needs to review its personnel costs so that more funding can be made available to the service delivery. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

A preliminary amount of R 32 million has been included in the 2013/14 MTREF. It should be noted that the total financial implication could not be determined as the applicable municipal wage curve (representing equal pay for equal work at all municipalities in South Africa) has not been finalised.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998). The most recent proclamation in this regard has been taken into account in compiling the municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 60 per cent and the Debt Write-off Policy of the municipality. For the 2013/14 financial year this

amount equates to R 2 million and escalates to R 2.5 million by 2014/15. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment has been informed by the Municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate asset consumption. Budget appropriations in this regard total R 4 million for the 2013/14 financial and equates to 6.2 per cent of the total operating expenditure. Note that the implementation of GRAP 17 accounting standard has meant bringing a range of assets previously not included in the assets register onto the register. This has resulted in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 4.3 per cent (R 100 000) of operating expenditure excluding annual redemption for 2013/14 and increases to R 200 000 by 2014/15.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Rand Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses.

Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the municipality's infrastructure. For 2013/14 the appropriation against this group of expenditure has grown by 32.5 per cent (R5 million) and continues to grow at 13 and 12 per cent for the two outer years of which budget allocation is in excess of R 6 million by 2014/15.

Contracted services have been identified as for security and leases of photocopying machines. Further details relating to contracted services can be seen in Table 64 MBRR SA1 (see page 100).

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 5 per cent for 2013/14 and curbed at 6.2 and 5.9 per cent for the two outer years, indicating that significant cost savings have been already realised. Further details relating to contracted services can be seen in Table 64 MBRR SA1 (see page 100).

The following table gives a breakdown of the main expenditure categories for the 2013/14 financial year.

1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the municipality's current infrastructure, the 2013/14 budget and MTREF provide for extensive growth in the area of asset maintenance, as informed by the asset renewal strategy and repairs and maintenance plan of the municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

Considering these cost drivers, the following table is a consolidation of all the expenditures associated with repairs and maintenance:

Table 10 Operational repairs and maintenance

During the compilation of the 2013/14 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the municipality's infrastructure and historic deferred maintenance. However it is still very low from the 8 per cent as regulated by Treasury.

The table below provides a breakdown of the repairs and maintenance in relation to asset class:

Table 11 Repairs and maintenance per asset class

1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the municipality's Indigent Policy. The target is to register 1 000 or more indigent households during the 2013/14 financial year, a process reviewed annually during July and August. Detail relating to free services, cost of free basis services, revenue lost owing to free basic services as well as basic service delivery measurement is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement) on page 38.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6 Capital expenditure

The following table provides a breakdown of budgeted capital expenditure by vote:

Total new assets represent 53.5 per cent or R1.39 million of the total capital budget while asset renewal equates to 46.5 per cent or R1.21 million. Further detail relating to asset classes and proposed capital expenditure is contained in Table 26 MBRR A9 (Asset Management) on page 36. In addition to the MBRR Table A9, MBRR Tables SA34a, b, c provides a detailed breakdown of the capital programme relating to new asset construction, capital asset renewal as well as operational repairs and maintenance by asset class (refer to pages 88, 89 and 90). Some of the salient projects to be undertaken over the medium-term includes, amongst others:

- Public lighting – R million;
- Refurbishment and renewal electrical network – R million;
- Parks, recreational facilities and halls – R million;
- Backlog eradication of roads – R million;
- Rehabilitation of roads – R million; and

- Extension of main entry roads – R million.

National Treasury regulates that the municipality must spent at least 40 per cent of their Capital budget towards the Renewal of the Existing Assets, but the municipality is not achieving this because of the huge backlog we are facing as the municipality

Table 12 2011/12 Medium-term capital budget per vote

1.6.1 Future operational cost of new infrastructure

The future operational costs and revenues associated with the capital programme have been included in Table 61 MBRR SA35 on page 91. This table shows that future operational costs associated with the capital programme totals R 1 million in 2013/14 and escalates to R1 million by 2015/16. This concomitant operational expenditure is expected to escalate to R1 million by 2018/19. It needs to be noted that as part of the 2013/14 MTREF, this expenditure has been factored into the two outer years of the operational budget

1.7 Annual Budget Tables - Nquthu Municipality

The following pages present the ten main budget tables as required in terms of section 8 of the Municipal Budget and Reporting Regulations. These tables set out the municipality's 2011/12 budget and MTREF as approved by the Council. Each table is accompanied by *explanatory notes* on the facing page

KZN242 Nquthu - Table A1 Budget Summary

Description	2009/10	2010/11	2011/12	Current Year 2012/13				2013/14 Medium Term Revenue & Expenditure Framework		
R thousands	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Financial Performance										
Property rates	3 554	6 729	6 415	16 627	–	16 627	–	17 783	18 934	20 162
Service charges	7 555	9 457	11 969	15 598	–	15 598	–	19 604	23 278	28 468
Investment revenue	263	529	2 255	600	–	600	–	1 046	1 114	1 186
Transfers recognised – operational	54 014	63 587	95 388	49 451	–	–	–	84 643	94 464	92 545
Other own revenue	1 219	1 283	1 096	2 726	–	2 570	–	1 426	1 470	1 559
Total Revenue (excluding capital transfers and contributions)	66 605	81 584	117 124	85 002	–	35 396	–	124 501	139 260	143 920
Employee costs	15 010	17 015	17 301	28 500	–	28 500	–	32 162	33 802	35 458
Remuneration of councilors	4 991	6 051	6 795	7 159	–	7 159	–	10 130	10 646	11 168
Depreciation & asset impairment	3 722	4 133	4 815	4 100	–	–	–	5 625	5 911	6 201
Finance charges	204	272	192	221	–	221	–	136	124	115
Materials and bulk purchases	15 263	9 130	11 553	18 307	–	1 807	–	17 298	20 884	25 821
Transfers and grants	–	–	–	–	–	–	–	5 000	5 000	5 000
Other expenditure	2 313	3 251	4 718	5 641	–	5 641	–	28 816	33 863	30 328
Total Expenditure	41 503	39 851	45 373	63 929	–	43 329	–	99 166	110 231	114 092
Surplus/(Deficit)	25 102	41 733	71 750	21 073	–	(7 933)	–	25 335	29 030	29 828
Transfers recognised – capital	–	–	–	37 388	525	36 863	–	39 060	29 239	31 158
Contributions recognised - capital & contributed assets	–	–	–	37 388	525	36 863	–	50 312	34 535	32 811
Surplus/(Deficit) after capital transfers & contributions	25 102	41 733	71 750	95 849	1 050	65 793	–	114 708	92 804	93 797
Share of surplus/ (deficit) of associate	–	–	–	–	–	–	–	–	–	–
Surplus/(Deficit) for the year	25 102	41 733	71 750	95 849	1 050	65 793	–	114 708	92 804	93 797
Capital expenditure & funds sources										
Capital expenditure	–	–	11 278	47 198	–	47 198	–	11 252	4 271	1 653
Transfers recognised – capital	15 097	26 477	35 019	37 388	(525)	36 863	–	39 060	29 239	31 152
Public contributions & donations	–	–	–	–	–	–	–	–	–	–
Borrowing	–	–	–	–	–	–	–	–	–	–
Internally generated funds	903	23	–	–	–	–	–	11 252	5 296	1 653
Total sources of capital funds	16 000	26 500	35 019	37 388	(525)	36 863	–	50 312	34 535	32 805
Financial position										
Total current assets	17 477	43 232	67 429	57 983	–	27 225	–	149 529	171 669	205 276

Total non current assets	56 104	70 555	98 271	101 304	–	101 245	–	11 252	5 296	1 653
Total current liabilities	12 090	18 087	18 710	10 213	–	10 213	–	8 459	9 099	9 752
Total non current liabilities	4 319	2 872	1 962	45	–	45	–	–	–	–
Community wealth/Equity	–	–	–	–	–	–	–	–	–	–
Cash flows										
Net cash from (used) operating	14 483	33 603	63 167	71 143	–	71 143	–	67 592	41 516	70 597
Net cash from (used) investing	(6 665)	(10 452)	(33 554)	(25 699)	–	–	–	(49 187)	(23 943)	(29 499)
Net cash from (used) financing	140	(1 500)	(1 540)	(763)	–	(763)	–	(882)	(864)	(851)
Cash/cash equivalents at the year end	10 805	32 456	60 530	105 211	–	70 380	–	87 903	104 611	144 858
Cash backing/surplus reconciliation										
Cash and investments available	10 805	32 456	60 530	45 758	–	15 000	–	142 903	164 611	197 858
Application of cash and investments	3 092	5 022	11 022	(7 438)	–	(7 514)	–	(906)	(1 929)	(1 768)
Balance - surplus (shortfall)	7 714	27 434	49 508	53 196	–	22 514	–	143 809	166 540	199 626
Asset management										
Asset register summary (WDV)	1 368	1 345	47 847	34 623	–	–	63 686	63 686	–	–
Depreciation & asset impairment	3 722	4 133	4 815	4 100	–	–	5 625	5 625	5 911	6 201
Renewal of Existing Assets	–	–	–	–	–	–	–	–	–	–
Repairs and Maintenance	–	–	–	–	–	–	5 365	5 365	2 468	2 851
Free services										
Cost of Free Basic Services provided	–	–	–	–	–	–	–	–	–	–
Revenue cost of free services provided	–	–	–	–	–	–	–	–	–	–
Households below minimum service level										
Water:	–	–	–	–	–	–	–	–	–	–
Sanitation/sewerage:	–	–	–	–	–	–	–	–	–	–
Energy:	–	–	–	–	–	–	–	–	–	–
Refuse:	–	–	–	–	–	–	–	–	–	–

Explanatory notes to MBRR Table A1 - Budget Summary

1. Table A1 is a budget summary and provides a concise overview of the municipality's budget from all of the major financial perspectives (operating, capital expenditure, financial position, cash flow, and MFMA funding compliance).
2. The table provides an overview of the amounts approved by Council for operating performance, resources deployed to capital expenditure, financial position, cash and funding compliance, as well as the municipality's commitment to eliminating basic service delivery backlogs.
3. Financial management reforms emphasises the importance of the municipal budget being funded. This requires the simultaneous assessment of the Financial Performance, Financial Position and Cash Flow Budgets, along with the Capital Budget. The Budget Summary provides the key information in this regard:
    a. The operating surplus/deficit (after Total Expenditure) is positive over the MTREF
    b. Capital expenditure is balanced by capital funding sources, of which
        i. Transfers recognised is reflected on the Financial Performance Budget;
        ii. Borrowing is incorporated in the net cash from financing on the Cash Flow Budget
        iii. Internally generated funds are financed from a combination of the current operating surplus and accumulated cash-backed surpluses from previous years. The amount is incorporated in the Net cash from investing on the Cash Flow Budget. The fact that the municipality's cash flow remains positive, and is improving indicates that the necessary cash resources are available to fund the Capital Budget.
4. The Cash backing/surplus reconciliation shows that in previous financial years the municipality has been managing its finances well. This place the municipality in a favourable financial position, as the recent slow-down in revenue collections highlighted. Council has taken to ensure adequate cash-backing for all material obligations in accordance with the recently adopted Funding and Reserves Policy. But over the MTREF there is progressive improvement in the level of cash-backing of obligations.
5. Even though the Council is placing great emphasis on securing the financial sustainability of the municipality, this is not being done at the expense of services to the poor. The section of Free Services shows that the amount spent on Free Basic Services and the revenue cost of free services provided by the municipality continues to increase. In addition, the municipality continues to make progress in addressing service delivery backlogs. The funding needed to eradicate all the backlogs is very huge and there is no indication that this can be fully addressed within the next 10 to 15 years.

KZN242 Nquthu - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand	1	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Revenue – Standard										
Governance and administration		48 651	69 585	94 143	75 044	–	–	128 849	144 769	171 925
Executive and council		15 096	15 096	2 676	895	–	–	28 150	30 169	32 118
Budget and treasury office		33 555	54 489	91 467	73 596	–	–	100 181	114 042	139 216
Corporate services		–	–	–	553	–	–	518	558	591
Community and public safety		256	211	147	1 021	–	–	1 439	1 517	1 590
Community and social services		–	–	–	721	–	–	1 344	1 416	1 483
Sport and recreation		–	–	–	–	–	–	–	–	–
Public safety		256	211	147	300	–	–	95	101	107
Housing		–	–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–	–
Economic and environmental services		10	81	3 048	3 200	–	–	176	186	197
Planning and development		10	81	3 048	3 200	–	–	176	186	197
Road transport		–	–	–	–	–	–	–	–	–
Environmental protection		–	–	–	–	–	–	–	–	–
Trading services		3 763	10 247	14 434	39 009	–	–	33 098	23 804	29 027
Electricity		3 763	10 247	14 434	34 911	–	–	29 909	20 436	25 464
Water		–	–	–	–	–	–	–	–	–
Waste water management		–	–	–	–	–	–	–	–	–
Waste management		–	–	–	4 098	–	–	3 189	3 368	3 563
Other	4	–	–	–	–	–	–	–	–	–
Total Revenue – Standard	2	52 680	80 124	111 772	118 275	–	–	163 562	170 275	202 740
Expenditure – Standard	-									
Governance and administration		44 028	24 616	39 996	48 158	–	–	55 285	55 347	52 964
Executive and council		39 226	5 954	20 712	25 403	–	–	22 600	19 673	18 780
Budget and treasury office		4 802	17 571	16 254	18 637	–	–	19 319	20 323	21 506
Corporate services		–	1 091	3 030	4 117	–	–	13 365	15 351	12 677
Community and public safety		3 686	6 266	633	12 600	–	–	13 903	17 728	17 929
Community and social services		3 044	5 174	–	9 534	–	–	8 415	14 754	14 746
Sport and recreation		–	–	–	–	–	–	–	–	–
Public safety		643	1 092	633	3 066	–	–	5 488	2 974	3 183
Housing		–	–	–	–	–	–	–	–	–
Health		–	–	–	–	–	–	–	–	–
Economic and environmental services		1 347	5 937	14 996	21 203	–	–	20 108	19 555	19 779

Planning and development		127	1 879	14 996	10 229	–	–	12 308	11 331	10 838
Road transport		1 220	4 058	–	10 974	–	–	7 800	8 223	8 941
Environmental protection		–	–	–	–	–	–	–	–	–
Trading services		9 274	11 830	22 458	25 320	–	–	30 637	29 648	35 721
Electricity		8 304	10 501	20 988	20 884	–	–	24 018	23 549	29 000
Water		–	–	–	–	–	–	–	–	–
Waste water management		101	22	–	995	–	–	1 070	1 123	1 179
Waste management		869	1 307	1 470	3 441	–	–	5 549	4 976	5 542
Other	4	–	–	–	–	–	–	–	–	–
Total Expenditure – Standard	3	58 336	48 649	78 083	107 280	–	–	119 933	122 278	126 393
Surplus/(Deficit) for the year		(5 655)	31 475	33 689	10 995	–	–	43 629	47 997	76 346

Explanatory notes to MBRR Table A2 - Budgeted Financial Performance (revenue and expenditure by standard classification)

1. Table A2 is a view of the budgeted financial performance in relation to revenue and expenditure per standard classification. The modified GFS standard classification divides the municipal services into 15 functional areas. Municipal revenue, operating expenditure and capital expenditure are then classified in terms if each of these functional areas which enables the National Treasury to compile 'whole of government' reports.
2. Note the Total Revenue on this table includes capital revenues (Transfers recognised – capital) and so does not balance to the operating revenue shown on Table A4.
3. Note that as a general principle the revenues for the Trading Services should exceed their expenditures. The table highlights that this is not the case for Electricity and the Waste management functions. As already noted above, the municipality will be undertaking a detailed study of this function to explore ways of improving efficiencies and provide a basis for re-evaluating the function's tariff structure.
4. Other functions that show a deficit between revenue and expenditure are being financed from rates revenues and other revenue sources reflected under the Corporate Services.

Explanatory notes to MBRR Table A3 - Budgeted Financial Performance (revenue and expenditure by municipal vote)

1. Table A3 is a view of the budgeted financial performance in relation to the revenue and expenditure per municipal vote. This table facilitates the view of the budgeted operating performance in relation to the organisational structure of the municipality. This means it is possible to present the operating surplus or deficit of a vote. The following table is an analysis of the surplus or deficit for the electricity and water trading services.

The electricity function is still being run at a huge loss and serious interventions need to be done to change this situation.

Explanatory notes to Table A4 - Budgeted Financial Performance (revenue and expenditure)

1. Total revenue is R15.1 million in 2011/12 and escalates to R19.3 million by 2013/14. This represents a year-on-year increase of 12.5 per cent for the 2012/13 financial year and 13.5 per cent for the 2013/14 financial year.
2. Revenue to be generated from property rates is R11 million in the 2013/14 financial year and increases to R13 million by 2014/15 which represents 19.9 per cent of the operating revenue base of the municipality and therefore remains a significant funding source for the municipality. It remains relatively constant over the medium-term and tariff increases have been factored in at 10 per cent, 9 per cent and 9 per cent for each of the respective financial years of the MTREF.
3. Services charges relating to electricity, water and refuse removal constitutes the biggest component of the revenue basket of the municipality totalling R 4 million for the 2013/14 financial year and increasing to R14 million by 2014/15. For the 2013/14 financial year services charges amount to 56 per cent of the total revenue base and grows by 1 per cent per annum over the medium-term. This growth can mainly be attributed to the increase in the bulk prices of electricity.
4. Transfers recognised – operating includes the local government equitable share and other operating grants from national and provincial government. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF by 11.6 per cent and 8.9 per cent for the two outer years. The percentage share of this revenue source declines due to the more rapid relative growth in service charge revenues

Explanatory notes to Table A5 - Budgeted Capital Expenditure by vote, standard classification and funding source

1. Table A5 is a breakdown of the capital programme in relation to capital expenditure by municipal vote (multi-year and single-year appropriations); capital expenditure by standard classification; and the funding sources necessary to fund the capital budget, including information on capital transfers from national and provincial departments.
2. The MFMA provides that a municipality may approve multi-year or single-year capital budget appropriations. In relation to multi-year appropriations, for 2011/12 R2.1 million has been allocated of the total R2.6 million capital budget, which totals 80.7 per cent. This allocation escalates to R2.7 million in 2012/12 and then flattens out to R2.4 million in 2013/14 owing primarily to the fact that various projects reach completion in 2012/13 hence the spike in expenditure in year two.
3. Single-year capital expenditure has been appropriated at R460 million for the 2011/12 financial year and remains relatively constant over the MTREF at levels of R435 million and R443 million respectively for the two outer years.
4. Unlike multi-year capital appropriations, single-year appropriations relate to expenditure that will be incurred in the specific budget year such as the procurement of vehicles and specialized tools and equipment. The budget appropriations for the two outer years are indicative allocations based on the departmental business plans as informed by the IDP and will be reviewed on an annual basis to assess the relevance of the expenditure in relation to the strategic objectives and service delivery imperatives of the municipality. For the purpose of funding assessment of the MTREF, these appropriations have been included but no commitments will be incurred against single-year appropriations for the two outer-years.

5. The capital programme is funded from capital and provincial grants and transfers, public contributions and donations, borrowing and internally generated funds from current year surpluses. For 2011/12, capital transfers totals R1 million (38.4 per cent) and escalates to R1.2 million by 2013/14 (41.3 per cent). Borrowing has been provided at R1 million over the MTREF with internally generated funding totaling R517 million, R971 million and R647 million for each of the respective financial years of the MTREF. These funding sources are further discussed in detail in 2.6 (Overview of Budget Funding).

Explanatory notes to Table A6 - Budgeted Financial Position

1. Table A6 is consistent with international standards of good financial management practice, and improves understandability for councilors and management of the impact of the budget on the statement of financial position (balance sheet).
2. This format of presenting the statement of financial position is aligned to GRAP1, which is generally aligned to the international version which presents Assets less Liabilities as “accounting” Community Wealth. The order of items within each group illustrates items in order of liquidity; i.e. assets readily converted to cash, or liabilities immediately required to be met from cash, appear first.
3. Table 66 is supported by an extensive table of notes (SA3 which can be found on page 102) providing a detailed analysis of the major components of a number of items, including:
   - Call investments deposits;
   - Consumer debtors;
   - Property, plant and equipment;
   - Trade and other payables;
   - Provisions non current;
   - Changes in net assets; and
   - Reserves
4. The municipal equivalent of equity is Community Wealth/Equity. The justification is that ownership and the net assets of the municipality belong to the community.
5. Any movement on the Budgeted Financial Performance or the Capital Budget will inevitably impact on the Budgeted Financial Position. As an example, the collection rate assumption will impact on the cash position of the municipality and subsequently inform the level of cash and cash equivalents at year end. Similarly, the collection rate assumption should inform the budget appropriation for debt impairment which in turn would impact on the provision for bad debt. These budget and planning assumptions form a critical link in determining the applicability and relevance of the budget as well as the determination of ratios and financial indicators. In addition the funding compliance assessment is informed directly by forecasting the statement of financial position.

Explanatory notes to Table A7 - Budgeted Cash Flow Statement

1. The budgeted cash flow statement is the first measurement in determining if the budget is funded.
2. It shows the expected level of cash in-flow versus cash out-flow that is likely to result from the implementation of the budget.
3. It can be seen that the cash levels of the municipality fell significantly over the 2007/08 to 2009/10 period owing directly to a net decrease in cash for the 2008/09 financial year of R372 million.

4. The approved 2013/14 MTREF provide for a further net decrease in cash of R2 million for the 2010/11 financial year resulting in an overall projected negative cash position of R82 million at year end.
5. As part of the 2010/11 mid-year review and Adjustments Budget this unsustainable cash position had to be addressed as a matter of urgency and various interventions were implemented such as the reduction of expenditure allocations and rationalization of spending priorities.
6. In addition the municipality undertook an extensive debt collection drive resulting in cash receipts on arrear debtors of R2 million. These interventions translated into a net cash position of R5 million for the 2013/14 financial year and cash and cash equivalents totaled R6 million at year end.
7. The 2013/14 MTREF has been informed by the planning principle of ensuring adequate cash reserves over the medium-term.
8. Cash and cash equivalents totals R1.1 million as at the end of the 2011/12 financial year and escalates to R1.2 million by 2013/14.

Explanatory notes to Table A8 - Cash Backed Reserves/Accumulated Surplus Reconciliation

1. The cash backed reserves/accumulated surplus reconciliation is aligned to the requirements of MFMA Circular 42 – Funding a Municipal Budget.
2. In essence the table evaluates the funding levels of the budget by firstly forecasting the cash and investments at year end and secondly reconciling the available funding to the liabilities/commitments that exist.
3. The outcome of this exercise would either be a surplus or deficit. A deficit would indicate that the applications exceed the cash and investments available and would be indicative of non-compliance with the MFMA requirements that the municipality's budget must be "funded".
4. Non-compliance with section 18 of the MFMA is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded.
5. Considering the requirements of section 18 of the MFMA, it can be concluded that the adopted 2013/14 MTREF was not funded owing to the significant deficit.
6. As part of the budgeting and planning guidelines that informed the compilation of the 2013/14 MTREF the end objective of the medium-term framework was to ensure the budget is funded aligned to section 18 of the MFMA.
7. As can be seen the budget has been modelled to progressively move from a deficit of R2 million in 2013/14 to a surplus of R2 million by 2013/14.

Explanatory notes to Table A9 - Asset Management

1. Table A9 provides an overview of municipal capital allocations to building new assets and the renewal of existing assets, as well as spending on repairs and maintenance by asset class.
2. National Treasury has recommended that municipalities should allocate at least 40 per cent of their capital budget to the renewal of existing assets, and allocations to repairs and maintenance should be 8 per cent of PPE. The municipality still does not meet both these recommendations.

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Explanatory notes to Table A10 - Basic Service Delivery Measurement

1. Table A10 provides an overview of service delivery levels, including backlogs (below minimum service level), for each of the main services.
2. The municipality continues to make good progress with the eradication of backlogs:
    a. Water services – the municipality has a very huge backlog on water but this is a district function and we will work with them to reduce this backlog.
    b. Sanitation services – the municipality has a very huge backlog on sanitation but this is a district function and we will work with them to reduce this backlog.
    c. Electricity services – the municipal electricity department is only responsible for the urban area while Eskom is responsible for the rural areas. Eskom has however the most pressing network issues and in some instances when we get a grant from DOE we have to pay Eskom to increase capacity so that new electrifications can be undertaken. The urban area is fully electrified except for the small area which needs to be formalised before services can be made available.
    d. Refuse services – backlog will be reduced by 100 households in 2013/14, and a further 1 000 households in the outer two years of the MTREF. However it should be noted that this function is being investigated with a view to realising greater efficiencies, which is likely to translate into a more rapid process to address backlogs.
3. The budget provides for 500 households to be registered as indigent in 2013/14, and therefore entitled to receiving Free Basic Services. The number is set to increase to 1 000 households given the rapid rate of unemployment.
4. It is anticipated that these Free Basic Services will cost the municipality R1 million in 2013/14, increasing to R1.5 million in 2014/15. This is covered by the municipality's equitable share allocation from national government.
5. In addition to the Free Basic Services, the municipality also 'gives' households R million in free services in 2013/14, and it increases to R million in 2014/15. This 'tax expenditure' needs to be seen within the context of the municipality's overall revenue management strategy – the more the municipality gives away, the less there is available to fund other services. Currently, the 'free services' represent about 4 per cent of total operating revenue

Part 2 – Supporting Documentation

7.1 Overview of the annual budget process

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee consists of the Municipal Manager and senior officials of the municipality.

The primary aims of the Budget Steering Committee are to ensure:

- that the process followed to compile the budget complies with legislation and good budget practices;
- that there is proper alignment between the policy and service delivery priorities set out in the municipality's IDP and the budget, taking into account the need to protect the financial sustainability of municipality;
- that the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available; and
- that the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

7.1.1 Budget Process Overview

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2012) a time schedule that sets out the process to revise the IDP and prepare the budget.

The Mayor tabled in Council the required the IDP and budget time schedule on 25 August 2012. Key dates applicable to the process were:

- **August 2012** – Joint strategic planning session of the Mayoral Committee and Executive Management. Aim: to review past performance trends of the capital and operating budgets, the economic realities and to set the prioritisation criteria for the compilation of the 2011/12 MTREF;
- **November 2012** – Detail departmental budget proposals (capital and operating) submitted to the Budget and Treasury Office for consolidation and assessment against the financial planning guidelines;
- **January 2013** - Review of the financial strategy and key economic and financial planning assumptions by the Budget Steering Committee. This included financial forecasting and scenario considerations;
- **January 2013** – Multi-year budget proposals are submitted to the Mayoral Committee for endorsement;
- **28 January 2013** - Council considers the 2012/13 Mid-year Review and Adjustments Budget;
- **February 2013** - Recommendations of the Mayoral Committee are communicated to the Budget Steering Committee, and on to the respective departments. The draft 2012/13 MTREF is revised accordingly;
- **25 March 2013** - Tabling in Council of the draft 2013/14 IDP and 2014/14 MTREF for public consultation;
- **April 2013** – Public consultation;
- **May 2013** - Closing date for written comments;
- **May 2013** – finalisation of the 2013/14 IDP and 2013/14 MTREF, taking into consideration comments received from the public, comments from National Treasury, and updated information from the most recent Division of Revenue Bill and financial framework; and
- **31 May 2013** - Tabling of the 2013/14 MTREF before Council for consideration and approval.

There were no deviations from the key dates set out in the Budget Time Schedule tabled in Council.

7.1.2 IDP and Service Delivery and Budget Implementation Plan

This is the second review of the IDP as adopted by Council in July 2012. It started in September 2012 after the tabling of the IDP Process Plan and the Budget Time Schedule for the 2013/14 MTREF in August.

The municipality's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework is rolled out into objectives, key performance indicators and targets for implementation which directly inform the Service Delivery and Budget Implementation Plan. The Process Plan applicable to the fourth revision cycle included the following key IDP processes and deliverables:

- Registration of community needs;
- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the SDBIP, and
- The review of the performance management and monitoring processes.

The IDP has been taken into a business and financial planning process leading up to the 2013/14 MTREF, based on the approved 2012/13 MTREF, Mid-year Review and adjustments budget. The business planning process has subsequently been refined in the light of current economic circumstances and the resulting revenue projections.

With the compilation of the 2013/14 MTREF, each department/function had to review the business planning process, including the setting of priorities and targets after reviewing the mid-year and third quarter performance against the 2012/13 Departmental Service Delivery and Budget Implementation Plan. Business planning links back to priority needs and master planning, and essentially informed the detail operating budget appropriations and three-year capital programme.

7.1.3 Financial Modelling and Key Planning Drivers

As part of the compilation of the 2013/14 MTREF, extensive financial modelling was undertaken to ensure affordability and long-term financial sustainability. The following key factors and planning strategies have informed the compilation of the 2013/14 MTREF:

- Municipal growth
- Policy priorities and strategic objectives
- Asset maintenance
- Economic climate and trends (i.e. inflation, Eskom increases, household debt, migration patterns)
- Performance trends
- The approved 2012/13 adjustments budget and performance against the SDBIP
- Cash Flow Management Strategy
- Debtor payment levels
- Loan and investment possibilities
- The need for tariff increases versus the ability of the community to pay for services;
- Improved and sustainable service delivery

In addition to the above, the strategic guidance given in National Treasury's MFMA Circulars 51 and 54 has been taken into consideration in the planning and prioritisation process.

7.1.4 Community Consultation

The draft 2013/14 MTREF as tabled before Council on 25 March 2013 for community consultation was published on the municipality's website, and hard copies were made available at customer care offices, municipal notice boards and various libraries. In addition a further development of this year's consultation process included the launch of E-based consultation. E-mail notifications were sent to all organisations on the municipality's database, including ratepayer associations, community-based organisations and organised business. The opportunity to give electronic feedback was also communicated on the municipality's website.

All documents in the appropriate format (electronic and printed) were provided to National Treasury, and other national and provincial departments in accordance with section 23 of the MFMA, to provide an opportunity for them to make inputs.

Ward Committees were utilised to facilitate the community consultation process from 13 to 29 April 2013, and included nine public briefing sessions. The applicable dates and venues were published in all the local newspapers and on average attendance of 200 was recorded per meeting. This is up on the previous year's process. This can be attributed to the additional initiatives that were launched during the consultation process, including the specific targeting of ratepayer associations. Individual sessions were scheduled with organised business and imbizo's were held to further ensure transparency and interaction. Other stakeholders involved in the consultation included churches, non-governmental institutions and community-based organisations.

Submissions received during the community consultation process and additional information regarding revenue and expenditure and individual capital projects were addressed, and where relevant considered as part of the finalisation of the 2013/14 MTREF. Feedback and responses to the submissions received are available on request. The following are some of the issues and concerns raised as well as comments received during the consultation process:

- Capital expenditure is not allocated to the areas in the same ratio as the income derived from those areas. This is a normal practice in a collective taxation environment. The municipality is responsible for managing the equitable use of resources to ensure that constitutional imperative to progressively improve basic services in undeveloped areas is realized in a sustainable manner over a reasonable period of time;
- Several complaints were received regarding poor service delivery, especially waste removal backlogs and the state of road infrastructure;
- Poor performance of contractors relating to infrastructure development and maintenance especially in the areas of road construction and maintenance were raised;
- Issues were raised regarding the payment of bonuses to senior managers;
- Remuneration packages of council officials were criticized as being very high, relative their private sector counterparts within the municipality;
- The affordability of tariff increases, especially electricity, was raised on numerous occasions. This concern was also raised by organized business as an obstacle to economic growth;
- Pensioners cannot afford the tariff increases due to low annual pension increases; and
- During the community consultation process large sections of the community made it clear that they are not in favour of any further tariff increases to fund additional budget requests. They indicated that the municipality must do more to ensure efficiencies and value for money.

Significant changes effected in the final 2013/14 MTREF compared to the draft 2013/14 MTREF that was tabled for community consultation, include:

- The final Eskom bulk tariff increase, applicable to municipalities from 1 July 2013, was factored into the proposed consumer tariffs, applicable from 1 July 2013. This resulted in an increase of 7.3 per cent;
- An amount of R5 million was allocated in the Capital Budget from various expenses which were reprioritised;
- The 2013 Division of Revenue Act (DORA) grant allocations were finalized and aligned to the gazetted allocations; and
- Funding was allocated to address metering discrepancies and unmetered premises and street lighting.

- The rebates for indigent were increased from 25% of bills to 50%.

7.2 Overview of alignment of annual budget with IDP

The Constitution mandates local government with the responsibility to exercise local developmental and cooperative governance. The eradication of imbalances in South African society can only be realized through a credible integrated developmental planning process.

Municipalities in South Africa need to utilise integrated development planning as a method to plan future development in their areas and so find the best solutions to achieve sound long-term development goals. A municipal IDP provides a five year strategic programme of action aimed at setting short, medium and long term strategic and budget priorities to create a development platform, which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which municipalities use to provide vision, leadership and direction to all those that have a role to play in the development of a municipal area. The IDP enables municipalities to make the best use of scarce resources and speed up service delivery.

Integrated developmental planning in the South African context is amongst others, an approach to planning aimed at involving the municipality and the community to jointly find the best solutions towards sustainable development. Furthermore, integrated development planning provides a strategic environment for managing and guiding all planning, development and decision making in the municipality.

It is important that the IDP developed by municipalities correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in that area. Applied to the municipality, issues of national and provincial importance should be reflected in the IDP of the municipality. A clear understanding of such intent is therefore imperative to ensure that the municipality strategically complies with the key national and provincial priorities.

The aim of this revision cycle was to develop and coordinate a coherent plan to improve the quality of life for all the people living in the area, also reflecting issues of national and provincial importance. One of the key objectives is therefore to ensure that there exists alignment between national and provincial priorities, policies and strategies and the municipality's response to these requirements.

The national and provincial priorities, policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009;
- Government Programme of Action;
- Development Facilitation Act of 1995;
- Provincial Growth and Development Strategy (GGDS);
- National and Provincial spatial development perspectives;
- Relevant sector plans such as transportation, legislation and policy;
- National Key Performance Indicators (NKPIs);
- Accelerated and Shared Growth Initiative (ASGISA);
- National 2014 Vision;

- National Development Plan
- National Spatial Development Perspective (NSDP) and
- The National Priority Outcomes.

The Constitution requires local government to relate its management, budgeting and planning functions to its objectives. This gives a clear indication of the intended purposes of municipal integrated development planning. Legislation stipulates clearly that a municipality must not only give effect to its IDP, but must also conduct its affairs in a manner which is consistent with its IDP. The following table highlights the IDP's five strategic objectives for the 2011/12 MTREF and further planning refinements that have directly informed the compilation of the budget:

Table 13 IDP Strategic Objectives

2012/13 Financial Year	2013/14 MTREF
1. The provision of quality basic services and infrastructure	1. Provision of quality basic services and infrastructure
2. Acceleration of higher and shared economic growth and development	2. Economic growth and development that leads to sustainable job creation
3. Fighting of poverty, building clean, healthy, safe and sustainable communities	3.1 Fight poverty and build clean, healthy, safe and sustainable communities
	3.2 Integrated Social Services for empowered and sustainable communities
4. Fostering participatory democracy and adherence to Batho Pele principles through a caring, accessible and accountable service	4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service
5. Good governance, Financial viability and institutional governance	5.1 Promote sound governance
	5.2 Ensure financial sustainability
	5.3 Optimal institutional transformation to ensure capacity to achieve set objectives

In order to ensure integrated and focused service delivery between all spheres of government it was important for the municipality to align its budget priorities with that of national and provincial government. All spheres of government place a high priority on infrastructure development, economic development and job creation, efficient service delivery, poverty alleviation and building sound institutional arrangements.

Local priorities were identified as part of the IDP review process which is directly aligned to that of the national and provincial priorities. The key performance areas can be summarised as follows against the five strategic objectives:

1. Provision of quality basic services and infrastructure which includes, amongst others:
    - Provide electricity;
    - Provide water;
    - Provide sanitation;
    - Provide waste removal;
    - Provide housing;
    - Provide roads and storm water;
    - Provide public transport;
    - Provide municipality planning services; and
    - Maintaining the infrastructure of the municipality.

2. Economic growth and development that leads to sustainable job creation by:
    - Ensuring the is a clear structural plan for the municipality;
    - Ensuring planning processes function in accordance with set timeframes;
    - Facilitating the use of labour intensive approaches in the delivery of services and the building of infrastructure.

3.1 Fight poverty and build clean, healthy, safe and sustainable communities:
    - Effective implementation of the Indigent Policy;
    - Working with the provincial department of health to provide primary health care services;
    - Extending waste removal services and ensuring effective municipality cleansing;
    - Ensuring all waste water treatment works are operating optimally;
    - Working with strategic partners such as SAPS to address crime;
    - Ensuring save working environments by effective enforcement of building and health regulations;
    - Promote viable, sustainable communities through proper zoning; and
    - Promote environmental sustainability by protecting wetlands and key open spaces.

3.2 Integrated Social Services for empowered and sustainable communities
    - Work with provincial departments to ensure the development of community infrastructure such as schools and clinics is properly co-ordinated with the informal settlements upgrade programme

4. Foster participatory democracy and Batho Pele principles through a caring, accessible and accountable service by:
    - Optimising effective community participation in the ward committee system; and
    - Implementing Batho Pele in the revenue management strategy.

5.1 Promote sound governance through:
    - Publishing the outcomes of all tender processes on the municipal website

5.2 Ensure financial sustainability through:
    - Reviewing the use of contracted services
    - Continuing to implement the infrastructure renewal strategy and the repairs and maintenance plan

5.3 Optimal institutional transformation to ensure capacity to achieve set objectives
    - Review of the organizational structure to optimize the use of personnel;

In line with the MSA, the IDP constitutes a single, inclusive strategic plan for the municipality. The five-year programme responds to the development challenges and opportunities faced by the municipality by identifying the key performance areas to achieve the five the strategic objectives mentioned above.

In addition to the five-year IDP, the municipality undertakes an extensive planning and developmental strategy which primarily focuses on a longer-term horizon; 15 to 20 years. This process is aimed at influencing the development path by proposing a substantial programme of public-led investment to restructure current patterns of settlement, activity and access to resources in the municipality so as to promote greater equity and enhanced opportunity. The strategy specifically targets future developmental opportunities in traditional dormitory

settlements. It provides direction to the municipality's IDP, associated sectoral plans and strategies, and the allocation of resources of the municipality and other service delivery partners.

This development strategy introduces important policy shifts which have further been translated into seven strategic focus areas/objectives as outlined below:

- Developing dormant areas;
- Enforcing hard development lines – so as to direct private investment;
- Maintaining existing urban areas;
- Strengthening key economic clusters;
- Building social cohesion;
- Strong developmental initiatives in relation to the municipal institution as a whole; and
- Sound financial fundamentals.

Lessons learned with previous IDP revision and planning cycles as well as changing environments were taken into consideration in the compilation of the fourth revised IDP, including:

- Strengthening the analysis and strategic planning processes of the municipality;
- Initiating zonal planning processes that involve the communities in the analysis and planning processes. More emphasis was placed on area based interventions, within the overall holistic framework;
- Ensuring better coordination through a programmatic approach and attempting to focus the budgeting process through planning interventions; and
- Strengthening performance management and monitoring systems in ensuring the objectives and deliverables are achieved.

The 2013/14 MTREF has therefore been directly informed by the IDP revision process and the following tables provide a reconciliation between the IDP strategic objectives and operating revenue, operating expenditure and capital expenditure.

KZN242 Nquthu - Supporting Table SA4 Reconciliation of IDP strategic objectives and budget (revenue)

Strategic Objective	Goal	Goal Code	Ref	2009/10	2010/11	2011/12	Current Year 2012/13			2013/14 Medium Term Revenue & Expenditure Framework		
R thousand				Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2013/14	Budget Year +1 2014/15	Budget Year +2 2015/16
Government and Admistration					69 474	54 265	75 044	75 044	75 044	165 448	149 745	195 779
Community and public safety					299	245	1 021	1 021	1 021	1 594	379	299
Economic and enviromental services					115	50 050	3 200	3 200	3 200	364	402	115
Trading services					11 696	12 564	39 009	39 009	39 009	46 468	52 508	11 696
Allocations to other priorities			2									
Total Revenue (excluding capital transfers and contributions)			1	–	81 584	117 124	118 274	118 274	118 274	213 874	203 034	207 889

Table 14 MBRR Table SA4 - Reconciliation between the IDP strategic objectives and budgeted revenue

Table 15 MBRR Table SA5 - Reconciliation between the IDP strategic objectives and budgeted operating expenditure

Table 16 MBRR Table SA7 - Reconciliation between the IDP strategic objectives and budgeted capital expenditure

7.3 Measurable performance objectives and indicators

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality has developed and implemented a performance management system of which system is constantly refined as the integrated planning process unfolds. The Municipality targets, monitors, assesses and reviews organisational performance which in turn is directly linked to individual employee's performance.

At any given time within government, information from multiple years is being considered; plans and budgets for next year; implementation for the current year; and reporting on last year's performance. Although performance information is reported publicly during the last stage, the performance information process begins when policies are being developed, and continues through each of the planning, budgeting, implementation and reporting stages. The planning, budgeting and reporting cycle can be graphically illustrated as follows:

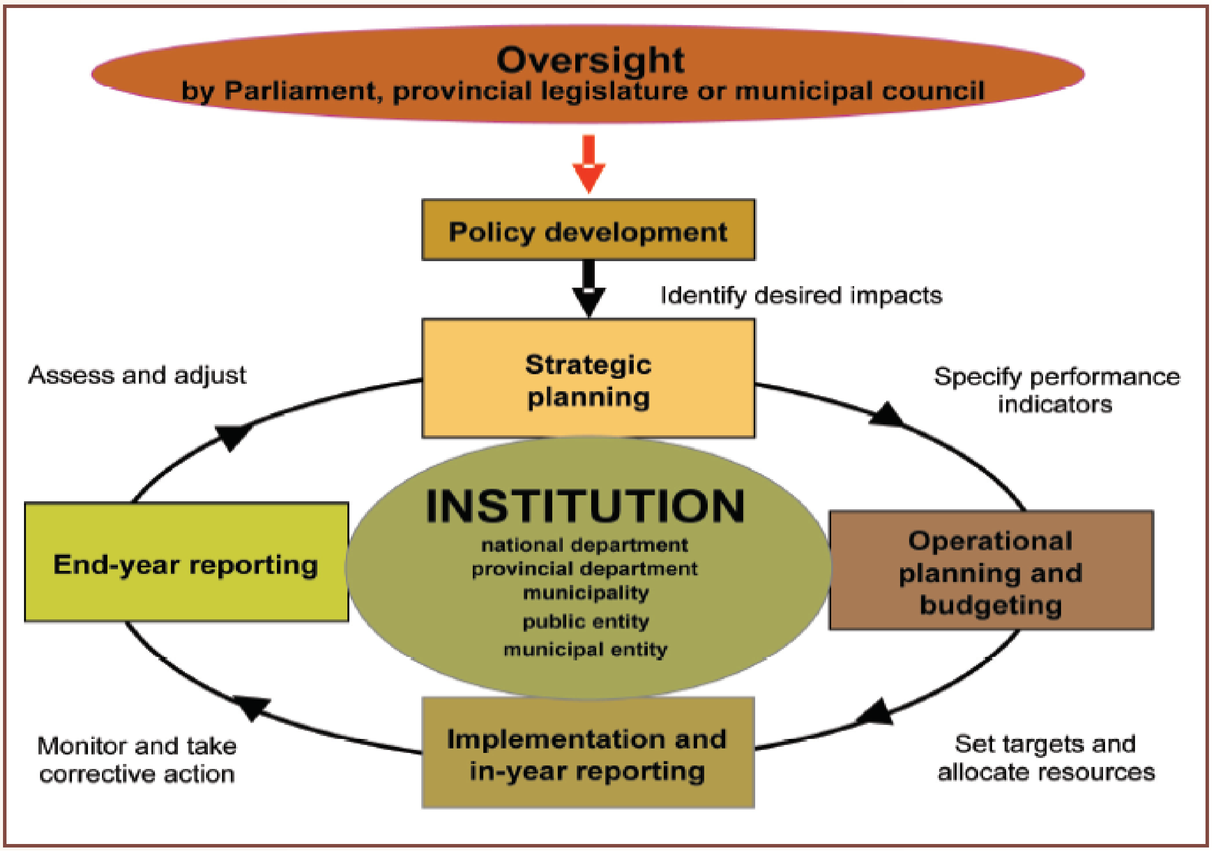

Figure 1 Planning, budgeting and reporting cycle

The performance of the municipality relates directly to the extent to which it has achieved success in realising its goals and objectives, complied with legislative requirements and meeting stakeholder expectations. The municipality therefore has adopted one integrated performance management system which encompasses:

- Planning (setting goals, objectives, targets and benchmarks);
- Monitoring (regular monitoring and checking on the progress against plan);
- Measurement (indicators of success);
- Review (identifying areas requiring change and improvement);
- Reporting (what information, to whom, from whom, how often and for what purpose); and
- Improvement (making changes where necessary).

The performance information concepts used by the municipality in its integrated performance management system are aligned to the ***Framework of Managing Programme Performance Information*** issued by the National Treasury:

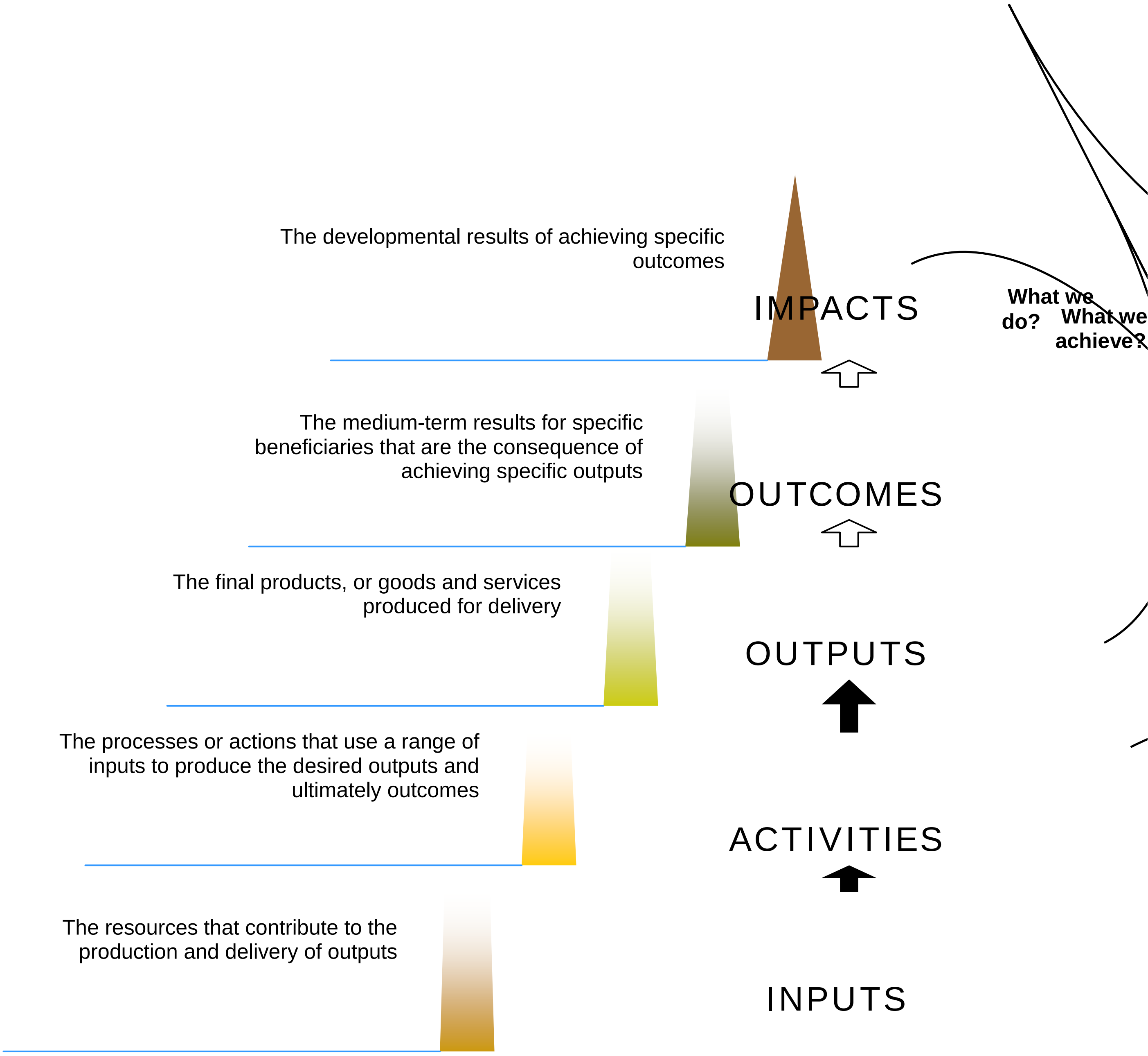
The developmental results of achieving specific outcomes
IMPACTS
What we do?
What we achieve?
The medium-term results for specific beneficiaries that are the consequence of achieving specific outputs
OUTCOMES
The final products, or goods and services produced for delivery
OUTPUTS
The processes or actions that use a range of inputs to produce the desired outputs and ultimately outcomes
ACTIVITIES
The resources that contribute to the production and delivery of outputs
INPUTS

Figure 2 Definition of performance information concepts

The following table provides the main measurable performance objectives the municipality undertakes to achieve this financial year.

Table 17 MBRR Table SA7 - Measurable performance objectives

The following table sets out the municipalities main performance objectives and benchmarks for the 2011/12 MTREF.

Table 18 MBRR Table SA8 - Performance indicators and benchmarks

7.3.1 Performance indicators and benchmarks

7.3.1.1 Borrowing Management

Capital expenditure in local government can be funded by capital grants, own-source revenue and long term borrowing. The ability of a municipality to raise long term borrowing is largely dependent on its creditworthiness and financial position. As with all other municipalities, municipality's borrowing strategy is primarily informed by the affordability of debt repayments. The structure of the municipality's debt portfolio is dominated by annuity loans. The following financial performance indicators have formed part of the compilation of the 2011/12 MTREF:

- *Borrowing to asset ratio* is a measure of the long-term borrowing as a percentage of the total asset base of the municipality. While this ratio is decreasing over the MTREF from 22.1 per cent to 18.5 per cent in 2013/14, it needs to be noted that the increased capital grants and transfers has contributed to the decrease and must not be considered a measure on borrowing capacity in isolation of other ratios and measures.

- *Capital charges to operating expenditure* is a measure of the cost of borrowing in relation to the operating expenditure. It can be seen that the cost of borrowing has steadily increased from 7 per cent in 2007/08 to 8.2 per cent in 2010/11. This increase can be attributed to the raising of loans to fund portions of the capital programme. It is estimated that the cost of borrowing as a percentage of the operating expenditure will reach 9.7 per cent in 2011/12 and will then decrease to 8.8 per cent at the end of the MTREF. While borrowing is considered a prudent financial instrument in financing capital infrastructure development, this indicator will have to be carefully monitored going forward as the municipality has reached its prudential borrowing limits.

- *Borrowing funding of own capital expenditure* measures the degree to which own capital expenditure (excluding grants and contributions) has been funded by way of borrowing. The average over MTREF is 64 per cent which substantiates the above mentioned statement that the municipality has reached its prudential borrowing limits.

The municipality's debt profile provides some interesting insights on the municipality s future borrowing capacity. Firstly, the use of amortising loans leads to high debt service costs at the beginning of the loan, which declines steadily towards the end of the loan's term.

In summary, various financial risks could have a negative impact on the future borrowing capacity of the municipality. In particular, the continued ability of the municipality to meet its revenue targets and ensure its forecasted cash flow targets are achieved will be critical in meeting the repayments of the debt service costs. As part of the compilation of the 2012/13 MTREF the potential of smoothing out the debt profile over the longer term will be investigated.

7.3.1.2 Safety of Capital

- *The debt-to-equity ratio* is a financial ratio indicating the relative proportion of equity and debt used in financing the municipality's assets. The indicator is based on the total of loans, creditors, overdraft and tax provisions as a percentage of funds and reserves. As part of the planning guidelines that informed the compilation of the 2011/12 MTREF ensuring proper cash-backing of reserves and funds has been considered a prudent financial sustainability objective, hence the steady decrease from 91.1 per cent in the 2011/12 financial year to 79.2 per cent in 2013/14.

7.3.1.3 Liquidity

- *Current ratio* is a measure of the current assets divided by the current liabilities and as a benchmark the municipality has set a limit of 1, hence at no point in time should this ratio be less than 1. For the 2011/12 MTREF the current ratio is 1.2 in the 2011/12 financial year and 1.1 for the two outer years of the MTREF. Going forward it will be necessary to maintain these levels.

- *The liquidity ratio* is a measure of the ability of the municipality to utilize cash and cash equivalents to extinguish or retire its current liabilities immediately. Ideally the municipality should have the equivalent cash and cash equivalents on hand to meet at least the current liabilities, which should translate into a liquidity ratio of 1. Anything below 1 indicates a shortage in cash to meet creditor obligations. For the 2010/11 financial year the ratio was 0.2 and as part of the financial planning strategy it has been increased to 0.3 in the 2011/12 financial year. This needs to be considered a pertinent risk for the municipality as any under collection of revenue will translate into serious financial challenges for the municipality. As part of the longer term financial planning objectives this ratio will have to be set at a minimum of 1.

7.3.1.4 Revenue Management

- As part of the financial sustainability strategy, an aggressive revenue management framework has been implemented to increase cash inflow, not only from current billings but also from debtors that are in arrears in excess of 90 days. The intention of the strategy is to streamline the revenue value chain by ensuring accurate billing, customer service, credit control and debt collection.

7.3.1.5 Creditors Management

- The municipality has managed to ensure that creditors are settled within the legislated 30 days of invoice. While the liquidity ratio is of concern, by applying daily cash flow management the municipality has managed to ensure a 100 per cent compliance rate to this legislative obligation. This has had a favourable impact on suppliers' perceptions of risk of doing business with the municipality, which is expected to benefit the municipality in the form of more competitive pricing of tenders, as suppliers compete for the municipality's business.

7.3.1.6 Other Indicators

- The electricity distribution losses have been managed downwards from 12 per cent in the 2012/13 financial year to 10 per cent over the MTREF. The initiatives to ensure these targets are achieved include managing illegal connections and theft of electricity by rolling out smart metering systems, including prepaid meters.

- Employee costs as a percentage of operating revenue continues to decrease over the MTREF. This is primarily owing to the high increase in bulk purchases which directly increase revenue levels, as well as increased allocation relating to operating grants and transfers.

- Similar to that of employee costs, repairs and maintenance as percentage of operating revenue is also decreasing owing directly to cost drivers such as bulk purchases increasing far above inflation. In real terms, repairs and maintenance has increased as part of the municipality's strategy to ensure the management of its asset base.

7.3.2 Free Basic Services: basic social services package for indigent households

The social package assists residents that have difficulty paying for services and are registered as indigent households in terms of the Indigent Policy of the municipality. With the exception of water, only registered indigents qualify for the free basic services.

For the 2013/14 financial year 500 registered indigents have been provided for in the budget with this figured increasing to 1 000 by 2014/15. In terms of the Municipality's indigent policy registered households are entitled to 50 kwh of electricity, as well as a discount on their property rates.

Further detail relating to the number of households receiving free basic services, the cost of free basic services, highest level of free basic services as well as the revenue cost associated with the free basic services is contained in Table 27 MBRR A10 (Basic Service Delivery Measurement) on page 38.

7.4 Overview of budget related-policies

The municipality's budgeting process is guided and governed by relevant legislation, frameworks, strategies and related policies.

7.4.1 Review of credit control and debt collection procedures/policies

The Collection Policy as approved by Council in October 2008 is currently under review. While the adopted policy is credible, sustainable, manageable and informed by affordability and value for money there has been a need to review certain components to achieve a higher collection rate. Some of the possible revisions will include the lowering of the credit periods for the down payment of debt. In addition emphasis will be placed on speeding up the indigent registration process to ensure that credit control and debt collection efforts are not fruitlessly wasted on these debtors.

As most of the indigents within the municipal area are unable to pay for municipal services because they are unemployed, the Integrated Indigent Exit Programme aims to link the registered indigent households to development, skills and job opportunities. The programme

also seeks to ensure that all departments as well as external role players are actively involved in the reduction of the number of registered indigent households.

The 2013/14 MTREF has been prepared on the basis of achieving an average debtors' collection rate of 87 per cent on current billings. In addition the collection of debt in excess of 90 days has been prioritised as a pertinent strategy in increasing the municipality's cash levels. In addition, the potential of a payment incentive scheme is being investigated and if found to be viable will be incorporated into the policy.

7.4.2 Asset Management, Infrastructure Investment and Funding Policy

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the municipality's revenue base. Within the framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

Further, continued improvements in technology generally allows many assets to be renewed at a lesser 'real' cost than the original construction cost. Therefore, it is considered prudent to allow for a slightly lesser continual level of annual renewal than the average annual depreciation. The Asset Management, Infrastructure and Funding Policy is therefore considered a strategic guide in ensuring a sustainable approach to asset renewal, repairs and maintenance and is utilised as a guide to the selection and prioritisation of individual capital projects. In addition the policy prescribes the accounting and administrative policies and procedures relating to property, plant and equipment (fixed assets).

7.4.3 Budget Adjustment Policy

The adjustments budget process is governed by various provisions in the MFMA and is aimed at instilling and establishing an increased level of discipline, responsibility and accountability in the financial management practices of municipalities. To ensure that the municipality continues to deliver on its core mandate and achieves its developmental goals, the mid-year review and adjustment budget process will be utilised to ensure that underperforming functions are identified and funds redirected to performing functions.

7.4.4 Supply Chain Management Policy

The Supply Chain Management Policy was adopted by Council in September 2008. An amended policy will be considered by Council in due course of which the amendments will be extensively consulted on. Various circulars and legislation also inform the SCM.

7.4.5 Budget and Virement Policy

The Budget and Virement Policy aims to empower senior managers with an efficient financial and budgetary amendment and control system to ensure optimum service delivery within the legislative framework of the MFMA and the municipality's system of delegations. The Budget

and Virement Policy was approved by Council in August 2009 and was amended on 31 May 2012 in respect of both Operating and Capital Budget Fund Transfers.

7.4.6 Cash Management and Investment Policy

The municipality's Cash Management and Investment Policy was amended by Council in May 2012. The aim of the policy is to ensure that the municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves. The policy details the minimum cash and cash equivalents required at any point in time and introduces time frames to achieve certain benchmarks.

7.4.7 Tariff Policies

The municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration and implementation of the next two years.

7.4.8 Financial Modelling and Scenario Planning Policy

The Financial Modelling and Scenario Planning Policy has directly informed the compilation of the 2013/14 MTREF with the emphasis on affordability and long-term sustainability. The policy dictates the approach to longer term financial modelling. The outcomes are then filtered into the budget process. The model and scenario planning outcomes are taken to Council every November and then translate into recommendations for the budget guidelines that inform the compilation of the next MTREF. One of the salient features of the policy is the emphasis on financial sustainability. Amongst others, the following has been modelled as part of the financial modelling and scenario planning process:

- Approved 2012/13 Adjustments Budget;
- Cash Flow Management Interventions, Initiatives and Strategies (including the cash backing of reserves);
- Economic climate and trends (i.e. Inflation, household debt levels, indigent factors, growth, recessionary implications);
- Loan and investment possibilities;
- Performance trends;
- Tariff Increases;
- The ability of the community to pay for services (affordability);
- Policy priorities;
- Improved and sustainable service delivery; and
- Debtor payment levels.

All the above policies are available on the municipality's website, as well as the following budget related policies:

- Property Rates Policy;
- Funding and Reserves Policy;
- Borrowing Policy;

- Budget Policy; and
- Basic Social Services Package (Indigent Policy).

7.5 Overview of budget assumptions

7.5.1 External factors

Domestically, after five years of strong growth, during which about two million jobs were created, our economy shrank by an estimated 1.8 per cent last year and about 900 000 people lost their jobs. It is expected that recovery from this deterioration will be slow and uneven, and that growth for 2012 will be 2.3 per cent rising to 3.6 per cent by 2013.

Owing to the economic slowdown, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the municipality's finances.

7.5.2 General inflation outlook and its impact on the municipal activities

There are five key factors that have been taken into consideration in the compilation of the 2013/14 MTREF:

- National Government macro-economic targets;
- The general inflationary outlook and the impact on municipality's residents and businesses;
- The impact of municipal cost drivers;
- The increase in prices for bulk electricity and water; and
- The increase in the cost of remuneration. Employee related costs comprise 27.7 per cent of total operating expenditure in the 2013/14 MTREF and therefore this increase above inflation places a disproportionate upward pressure on the expenditure budget. The wage agreement SALGBC concluded with the municipal workers unions on for 2012-2015 as well as the categorisation and job evaluation wage curves collective agreement signed on 27 July 2012 must be noted.

7.5.3 Credit rating outlook

The municipality has not done any credit rating as we do not foresee borrowing in the very near future. But should the need arise this will be done.

7.5.4 Interest rates for borrowing and investment of funds

The MFMA specifies that borrowing can only be utilised to fund capital or refinancing of borrowing in certain conditions. The municipality engages in a number of financing arrangements to minimise its interest rate costs and risk. However, for simplicity the 2013/14 MTREF is based on the assumption that all borrowings are undertaken using fixed interest rates for amortisation-style loans requiring both regular principal and interest payments. As part of the

compilation of the 2013/14 MTREF the potential of smoothing out the debt profile over the long term will be investigated.

7.5.5 Collection rate for revenue services

The base assumption is that tariff and rating increases will increase at a rate slightly higher that CPI over the long term. It is also assumed that current economic conditions, and relatively controlled inflationary conditions, will continue for the forecasted term.

The rate of revenue collection is currently expressed as a percentage (87 per cent) of annual billings. Cash flow is assumed to be 95 per cent of billings, plus an increased collection of arrear debt from the revised collection and credit control policy. The performance of arrear collections will however only be considered a source of additional cash in-flow once the performance has been carefully monitored.

7.5.6 Growth or decline in tax base of the municipality

Debtors revenue is assumed to increase at a rate that is influenced by the consumer debtors collection rate, tariff/rate pricing, real growth rate of the municipality, household formation growth rate and the poor household change rate.

Household formation is the key factor in measuring municipal revenue and expenditure growth, as servicing 'households' is a greater municipal service factor than servicing individuals. Household formation rates are assumed to convert to household dwellings. In addition the change in the number of poor households influences the net revenue benefit derived from household formation growth, as it assumes that the same costs incurred for servicing the household exist, but that no consumer revenue is derived as the 'poor household' limits consumption to the level of free basic services.

7.5.7 Salary increases

The collective agreement regarding salaries/wages came into operation on 1 July 2011 and shall remain in force until 30 June 2014. Year three is an across the board increase of 8.54 per cent.

7.5.8 Impact of national, provincial and local policies

Integration of service delivery between national, provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs, provincial and national strategies around priority spatial interventions. In this regard, the following national priorities form the basis of all integration initiatives:

- Creating jobs;
- Enhancing education and skill development;
- Improving Health services;
- Rural development and agriculture; and
- Fighting crime and corruption.

To achieve these priorities integration mechanisms are in place to ensure integrated planning and execution of various development programs. The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

7.5.9 Ability of the municipality to spend and deliver on the programmes

It is estimated that a spending rate of at least 97 per cent is achieved on operating expenditure and 98 per cent on the capital programme for the 2013/14 MTREF of which performance has been factored into the cash flow budget.

7.6 Overview of budget funding

7.6.1 Medium-term outlook: operating revenue

The following table is a breakdown of the operating revenue over the medium-term:

Table 19 Breakdown of the operating revenue over the medium-term

The following graph is a breakdown of the operational revenue per main category for the 2013/14 financial year.

Figure 3 Breakdown of operating revenue over the 2013/14 MTREF

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The municipality derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal. Property rates, operating and capital grants from organs of state and other minor charges (such as building plan fees, licenses and permits etc).

The revenue strategy is a function of key components such as:

- Growth in the municipality and economic development;
- Revenue management and enhancement;
- Achievement of a 95 per cent annual collection rate for consumer revenue;
- National Treasury guidelines;
- Electricity tariff increases within the National Electricity Regulator of South Africa (NERSA) approval;
- Achievement of full cost recovery of specific user charges;
- Determining tariff escalation rate by establishing/calculating revenue requirements;
- The Property Rates Policy in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA), and
- And the ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers aligned to the economic forecasts.

The proposed tariff increases for the 2013/14 MTREF on the different revenue categories are:

Table 20 Proposed tariff increases over the medium-term

Revenue to be generated from property rates is R17 million in the 2013/14 financial year and increases to R18 million by 2014/15 which represents 19.9 per cent of the operating revenue base of the municipality. It remains relatively constant over the medium-term. With the implementation of the Municipal Property Rates Act the basis of rating significantly changed.

2012/2013 was the last year for the valuation roll implemented in 2009/10, as such the valuation for the second phase started on 01 July 2012 and draft valuation roll finalised by the 31st of January 2013 as per the MPRA, only 11 objections were received and two of those were sent to the VAB because they were adjusted by more than 10 per cent, we are awaiting VAB response on this regards.

Operational grants and subsidies amount to R84 million, R94 million and R92 million for each of the respective financial years of the MTREF, or 7, 7 and 6 per cent of operating revenue. It needs to be noted that in real terms the grants receipts from national government are growing rapidly over the MTREF by 11.6 per cent and 8.9 per cent for the two outer years. The percentage of the total operational grants and transfers in relation to the total operating revenue is distorted owing to the high increases in revenue relating to services charges.

The tables below provide detail investment information and investment particulars by maturity.

Table 21 MBRR SA15 – Detail Investment Information

Table 22 MBRR SA16 – Investment particulars by maturity

For the medium-term, the funding strategy has been informed directly by ensuring financial sustainability and continuity. The MTREF therefore provides for a budgeted surplus of R0.1 million, R0.1 million and R0.1million in each of the financial years. This surplus is intended to partly fund capital expenditure from own sources as well as ensure adequate cash backing of reserves and funds.

7.6.2 Medium-term outlook: capital revenue

The following table is a breakdown of the funding composition of the 2013/14 medium-term capital programme:

Table 23 Sources of capital revenue over the MTREF

The above table is graphically represented as follows for the 2013/14 financial year.

Figure 4 Sources of capital revenue for the 2013/14 financial year

Capital grants and receipts equates to 40 per cent of the total funding source which represents R39 million for the 2013/14 financial year and decreases to R29 million or 41 per cent by 2014/15. The increase is due to the INEP grant that was only for two financial years.

The municipality is not looking at borrowings for the next medium term

The following table is a detailed analysis of the municipality's borrowing liability.

Table 24 MBRR Table SA 17 - Detail of borrowings

The following graph illustrates the growth in outstanding borrowing for the 2007/08 to 2013/14 period.

Figure 5 Growth in outstanding borrowing (long-term liabilities)

Internally generated funds consist of a mixture between surpluses generated on the operating statement of financial performance and cash backed reserves. In determining the credibility of this funding source it becomes necessary to review the cash flow budget as well as the cash backed reserves and accumulated funds reconciliation, as discussed below. Internally generated funds consist of R39 million in 2013/14, R44 million in 2014/15 and R51 million in 2015/16.

Table 25 MBRR Table SA 18 - Capital transfers and grant receipts

7.6.3 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The table below is consistent with international standards of good financial management practice and also improves understandability for councillors and management. Some specific features include:

- Clear separation of receipts and payments within each cash flow category;
- Clear separation of capital and operating receipts from government, which also enables cash from 'Ratepayers and other' to be provide for as cash inflow based on actual performance. In other words the *actual collection rate* of billed revenue., and
- Separation of borrowing and loan repayments (no set-off), to assist with MFMA compliance assessment regarding the use of long term borrowing (debt).

Table 26 MBRR Table A7 - Budget cash flow statement

7.6.4 Cash Backed Reserves/Accumulated Surplus Reconciliation

This following table meets the requirements of MFMA Circular 42 which deals with the funding of a municipal budget in accordance with sections 18 and 19 of the MFMA. The table seeks to answer three key questions regarding the use and availability of cash:

- What are the predicted cash and investments that are available at the end of the budget year?
- How are those funds used?
- What is the net funds available or funding shortfall?

A surplus would indicate the cash-backed accumulated surplus that was/is available. A shortfall (applications > cash and investments) is indicative of non-compliance with section 18 of the MFMA requirement that the municipality's budget must be 'funded'. Non-compliance with section 18 is assumed because a shortfall would indirectly indicate that the annual budget is not appropriately funded (budgeted spending is greater than funds available or to be collected). It is also important to analyse trends to understand the consequences, e.g. the budget year might indicate a small surplus situation, which in itself is an appropriate outcome, but if in prior years there were much larger surpluses then this negative trend may be a concern that requires closer examination.

Table 27 MBRR Table A8 - Cash backed reserves/accumulated surplus reconciliation

From the above table it can be seen that the cash and investments available total R1.7 million in the 2013/14 financial year and progressively increase to R2.4 million by 2014/15, including the projected cash and cash equivalents as determined in the cash flow forecast. The following is a breakdown of the application of this funding:

- Unspent conditional transfers (grants) are automatically assumed to be an obligation as the municipality has received government transfers in advance of meeting the conditions. Ordinarily, unless there are special circumstances, the municipality is obligated to return unspent conditional grant funds to the national revenue fund at the end of the financial year. In the past these have been allowed to 'roll-over' and be spent in the ordinary course of business, but this practice has been discontinued. During the 2012/13 financial year the municipality was required to supply National Treasury with a detailed analysis of the unspent grants as well as an action plan of spending the grants.
- There is no unspent borrowing from the previous financial years. In terms of the municipality's Borrowing and Investments Policy, borrowings are only drawn down once the expenditure has been incurred against the particular project. Unspent borrowing is ring-fenced and reconciled on a monthly basis to ensure no unnecessary liabilities are incurred.
- The main purpose of other working capital is to ensure that sufficient funds are available to meet obligations as they fall due. A key challenge is often the mismatch

between the timing of receipts of funds from debtors and payments due to employees and creditors. High levels of debtor non-payment and receipt delays will have a greater requirement for working capital, this will be resulting in cash flow challenges. For the purpose of the cash backed reserves and accumulated surplus reconciliation a provision equivalent to one month's operational expenditure has been provided for. It needs to be noted that although this can be considered prudent, the desired cash levels should be 120 days to ensure continued liquidity of the municipality. Any underperformance in relation to collections could place upward pressure on the ability of the municipality to meet its creditor obligations.

The following graph supplies an analysis of the trends relating cash and cash equivalents and the cash backed reserves/accumulated funds reconciliation over a seven year perspective.

Figure 6 Cash and cash equivalents / Cash backed reserves and accumulated funds

7.6.5 Funding compliance measurement

National Treasury requires that the municipality assess its financial sustainability against fourteen different measures that look at various aspects of the financial health of the municipality. These measures are contained in the following table. All the information comes directly from the annual budgeted statements of financial performance, financial position and cash flows. The funding compliance measurement table essentially measures the degree to which the proposed budget complies with the funding requirements of the MFMA. Each of the measures is discussed below.

Table 28 MBRR SA10 – Funding compliance measurement

7.6.5.1 Cash/cash equivalent position

The municipality's forecast cash position was discussed as part of the budgeted cash flow statement. A 'positive' cash position, for each year of the MTREF would generally be a minimum requirement, subject to the planned application of these funds such as cash-backing of reserves and working capital requirements.

If the municipality's forecast cash position is negative, for any year of the medium term budget, the budget is very unlikely to meet MFMA requirements or be sustainable and could indicate a risk of non-compliance with section 45 of the MFMA which deals with the repayment of short term debt at the end of the financial year. The forecasted cash and cash equivalents for the 2013/14 MTREF shows R1.1 million, R1.0 million and R1.2 million for each respective financial year.

7.6.5.2 Cash plus investments less application of funds

The purpose of this measure is to understand how the municipality has applied the available cash and investments as identified in the budgeted cash flow statement. The detail reconciliation of the cash backed reserves/surpluses is contained in Table 25, on page 25. The reconciliation is intended to be a relatively simple methodology for understanding the budgeted amount of cash and investments available with any planned or required applications to be made. This has been extensively discussed above.

7.6.5.3 Monthly average payments covered by cash or cash equivalents

The purpose of this measure is to understand the level of financial risk should the municipality be under stress from a collection and cash in-flow perspective. Regardless of the annual cash position an evaluation should be made of the ability of the municipality to meet monthly payments as and when they fall due. It is especially important to consider the position should the municipality be faced with an unexpected disaster that threatens revenue collection such as rate boycotts. Notably, the ratio has been falling significantly for the period 2007/08 to 2010/11, moving from 0.9 to (0.1) with the adopted 2010/11 MTREF. As part of the 2011/12 MTREF the municipalities improving cash position causes the ratio to move upwards to 1.0 and then reduces slightly to 0.9 for the outer years. As indicated above the municipality aims to achieve at least one month's cash coverage in the medium term, and then gradually move towards two months coverage. This measure will have to be carefully monitored going forward.

7.6.5.4 Surplus/deficit excluding depreciation offsets

The main purpose of this measure is to understand if the revenue levels are sufficient to conclude that the community is making a sufficient contribution for the municipal resources consumed each year. An 'adjusted' surplus/deficit is achieved by offsetting the amount of depreciation related to externally funded assets. Municipalities need to assess the result of this calculation taking into consideration its own circumstances and levels of backlogs. If the outcome is a deficit, it may indicate that rates and service charges are insufficient to ensure that the community is making a sufficient contribution toward the economic benefits they are consuming over the medium term. For the 2013/14 MTREF the indicative outcome is a surplus of R1.8 million, R2.0 million and R2.2 million.

It needs to be noted that a surplus does not necessarily mean that the budget is funded from a cash flow perspective and the first two measures in the table are therefore critical.

7.6.5.5 Property Rates/service charge revenue as a percentage increase less macro inflation target

The purpose of this measure is to understand whether the municipality is contributing appropriately to the achievement of national inflation targets. This measure is based on the increase in 'revenue', which will include both the change in the tariff as well as any assumption about real growth such as new property development, services consumption growth etc.

The factor is calculated by deducting the maximum macro-economic inflation target increase (which is currently 3 - 6 per cent). The result is intended to be an approximation of the real increase in revenue. From the table above it can be seen that the percentage growth totals 9.4, 8.9 and 9.0 per cent for the respective financial year of the 2013/14 MTREF. Considering the lowest percentage tariff increase in relation to revenue generated from rates and services charges is 6 per cent, with the increase in electricity at 7 per cent it is to be expected that the increase in revenue will exceed the inflation target figures. However, the outcome is lower than it might be due to the slowdown in the economy and a reduction in consumption patterns. This trend will have to be carefully monitored and managed with the implementation of the budget.

7.6.5.6 Cash receipts as a percentage of ratepayer and other revenue

This factor is a macro measure of the rate at which funds are 'collected'. This measure is intended to analyse the underlying assumed collection rate for the MTREF to determine the relevance and credibility of the budget assumptions contained in the budget. It can be seen that the outcome is at 95.2, 95.3 and 95.6 per cent for each of the respective financial years. Given that the assumed collection rate was based on a 95 per cent performance target, the cash flow statement has been conservatively determined. In addition the risks associated with objections to the valuation roll need to be clarified and hence the conservative approach, also taking into consideration the cash flow challenges experienced in the current financial year. This measure and performance objective will have to be meticulously managed. Should performance with the mid-year review and adjustments be positive in relation to actual collections of billed revenue, the adjustments budget will be amended accordingly.

7.6.5.7 Debt impairment expense as a percentage of billable revenue

This factor measures whether the provision for debt impairment is being adequately funded and is based on the underlying assumption that the provision for debt impairment (doubtful and bad debts) has to be increased to offset under-collection of billed revenues. The provision has been appropriated at 4.1, 4.0 and 4.0 per cent over the MTREF. Considering the debt incentive scheme and the municipality's revenue management strategy's objective to collect outstanding debtors of 90 days, the provision is well within the accepted leading practice.

7.6.5.8 Capital payments percentage of capital expenditure

The purpose of this measure is to determine whether the timing of payments has been taken into consideration when forecasting the cash position. It can be seen that a 2 per cent timing discount has been factored into the cash position forecasted over the entire financial year. The municipality aims to keep this as low as possible through strict compliance with the legislative requirement that debtors be paid within 30 days.

7.6.5.9 Borrowing as a percentage of capital expenditure (excluding transfers, grants and contributions)

The purpose of this measurement is to determine the proportion of a municipality's 'own-funded' capital expenditure budget that is being funded from borrowed funds to confirm MFMA compliance. Externally funded expenditure (by transfers/grants and contributions) has been be excluded. It can be seen that borrowing equates to 63.6, 49.5 and 58.3 per cent of own funded capital. Further details relating to the borrowing strategy of the municipality can be found on 66.

7.6.5.10 Transfers/grants revenue as a percentage of Government transfers/grants available

The purpose of this measurement is mainly to ensure that all available transfers from national and provincial government have been budgeted for. A percentage less than 100 per cent could indicate that not all grants as contained in the Division of Revenue Act (DoRA) have been budgeted for. The municipality has budgeted for all transfers.

7.6.5.11 Consumer debtors change (Current and Non-current)

The purpose of these measures are to ascertain whether budgeted reductions in outstanding debtors are realistic. There are 2 measures shown for this factor; the change in current debtors and the change in long term receivables, both from the Budgeted Financial Position. Both

measures show a relatively stable trend in line with the municipality's policy of settling debtors accounts within 30 days.

7.6.5.12 Repairs and maintenance expenditure level

This measure must be considered important within the context of the funding measures criteria because a trend that indicates insufficient funds are being committed to asset repair could also indicate that the overall budget is not credible and/or sustainable in the medium to long term because the revenue budget is not being protected. Details of the municipality's strategy pertaining to asset management and repairs and maintenance is contained in Table 60 MBRR SA34C on page 90.

7.6.5.13 Asset renewal/rehabilitation expenditure level

This measure has a similar objective to aforementioned objective relating to repairs and maintenance. A requirement of the detailed capital budget (since MFMA Circular 28 which was issued in December 2005) is to categorise each capital project as a new asset or a renewal/rehabilitation project. The objective is to summarise and understand the proportion of budgets being provided for new assets and also asset sustainability. A declining or low level of renewal funding may indicate that a budget is not credible and/or sustainable and future revenue is not being protected, similar to the justification for 'repairs and maintenance' budgets. Further details in this regard are contained in Table 59 MBRR SA34b on page 89.

7.7 Expenditure on grants and reconciliations of unspent funds

Table 29 MBRR SA19 - Expenditure on transfers and grant programmes

Table 30 MBRR SA 20 - Reconciliation between of transfers, grant receipts and unspent funds

7.8 Councillor and employee benefits

Table 31 MBRR SA22 - Summary of councillor and staff benefits

Table 32 MBRR SA23 - Salaries, allowances and benefits (political office bearers/councillors/ senior managers)

(Note that National Treasury has deliberately left the above table blank so as not to appear to be setting benchmarks for acceptable remuneration levels for the relevant positions. Municipalities MUST, however, provide the required information as applicable to their municipalities)

Table 33 MBRR SA24 – Summary of personnel numbers

7.9 Monthly targets for revenue, expenditure and cash flow

Table 34 MBRR SA25 - Budgeted monthly revenue and expenditure

Table 35 MBRR SA26 - Budgeted monthly revenue and expenditure (municipal vote)

Table 36 MBRR SA27 - Budgeted monthly revenue and expenditure (standard classification)

Table 37 MBRR SA28 - Budgeted monthly capital expenditure (municipal vote)

Table 38 MBRR SA29 - Budgeted monthly capital expenditure (standard classification)

Table 39 MBRR SA30 - Budgeted monthly cash flow

7.10 Annual budgets and SDBIPs – internal departments

Note: Municipalities would be required to undertake the aforementioned for each department/vote within the municipality.

7.11 Contracts having future budgetary implications

In terms of the Council's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the Financial Management Division of the Treasury Department.

7.12 Capital expenditure details

The following three tables present details of the municipality's capital expenditure programme, firstly on new assets, then the renewal of assets and finally on the repair and maintenance of assets.

Table 40 MBRR SA 34a - Capital expenditure on new assets by asset class

Table 41 MBRR SA34b - Capital expenditure on the renewal of existing assets by asset class

Table 42 MBRR SA34c - Repairs and maintenance expenditure by asset class

Table 43 MBRR SA35 - Future financial implications of the capital budget

Table 44 MBRR SA36 - Detailed capital budget per municipal vote

Table 62 MBRR 36: Detailed capital budget per municipal vote (continued)

Table 62 MBRR SA36: Detailed capital budget per municipal vote (continued)

Table 62 MBRR SA36: Detailed capital budget per municipal vote (continued)

Table 45 MBRR SA37 - Projects delayed from previous financial year

7.13 Legislation compliance status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

1. In year reporting
   Reporting to National Treasury in electronic format was fully complied with on a monthly basis. Section 71 reporting to the Mayor (within 10 working days) has progressively improved and includes monthly published financial performance on the municipality's website.

2. Internship programme
   The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Financial Services Department. Of the three interns one has been appointed permanently from August 2012. Since the introduction of the Internship programme the municipality has successfully employed and trained 5 interns through this programme.

3. Budget and Treasury Office
   The Budget and Treasury Office has been established in accordance with the MFMA.

4. Audit Committee and Internal Audit
   An Audit Committee has been established and is fully functional. The Internal Audit function is co-sourced.

5. Service Delivery and Implementation Plan
   The detail SDBIP document is at a draft stage and will be finalised after approval of the 2013/14 MTREF in May 2013 directly aligned and informed by the 2013/14 MTREF.

6. Annual Report
   Annual report is compiled in terms of the MFMA and National Treasury requirements.

7. MFMA Training
   The MFMA training module in electronic format is presented at the municipality's internal centre and training is on-going.

8. Policies
   An amendment of the Municipal Property Rates Regulations as published in Government Notice 363 of 27 March 2009, was announced in Government Gazette 33016 on 12 March 2010. The ratios as prescribed in the Regulations have been complied with.

7.14 Other supporting documents

Table 46 MBRR Table SA1 - Supporting detail to budgeted financial performance

Table 64 MBRR Table SA1 - Supporting detail to budgeted financial performance (Continued)

Table 47 MBRR Table SA2 – Matrix financial performance budget (revenue source/expenditure type and department)

Table 48 MBRR Table SA3 – Supporting detail to Statement of Financial Position

Table 49 MBRR Table SA9 – Social, economic and demographic statistics and assumptions

Table 50 MBRR SA32 – List of external mechanisms

7.15 Municipal manager’s quality certificate

I …………………………………, municipal manager of Nquthu Local Municipality, hereby certify that the annual budget and supporting documentation have been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Print Name: ____

Municipal Manager of Nquthu Municipality (KZN242)

Signature: ____

Date: ______________________________